

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

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AMCONSUL STUTTGART

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

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DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: ECONOMIC POLICY DEBATE IN THE BUNDESTAG

REITERATES OLD POSITIONS.

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1. SUMMARY. ON MARCH 11, THE GOVERNMENT'S AND THE COUNCIL OF ECONOMIC EXPERTS' ANNUAL REPORTS WERE DISCUSSED BY THE BUNDESTAG. ECONOMICS MINISTER FRIDERICH'S SPEECH FEATURED A RELATIVELY OPTIMISTIC APPRAISAL OF THE CURRENT ECONOMIC SITUATION AND GROWTH PROSPECTS FOR 1976, MIXED WITH HINTS AT PERSISTENT ELEMENTS OF UNCERTAINTY REGARDING LONGER TERM PROSPECTS AND ADMISSION THAT UNEMPLOYMENT WILL REMAIN A MAJOR PROBLEM FOR QUITE SOME TIME. OPPOSITION SPOKESMEN, WHILE CONCEDED THAT ECONOMIC INDICATORS HAVE IMPROVED IN THE RECENT PAST, RAISED DOUBTS AS TO THE STRENGTH AND DURATION OF THE UPSWING. THEY ADVISED AGAINST THE CONTEMPLATED TAX INCREASES (TVA) AND, INSTEAD, IMPLIED THE NEED FOR ADDITIONAL TAX CUTS TO FOSTER INVESTMENT PROPENSITY IN AN EFFORT TO COPE WITH THE UNEMPLOYMENT PROBLEM. END SUMMARY.

2. ECONOMICS MINISTER FRIDERICH'S PAINTED A RATHER FAVORABLE PICTURE OF THE CURRENT ECONOMIC SITUATION IN A REGULARLY SCHEDULED PARLIAMENTARY DEBATE ON THE GOVERNMENT'S ECONOMIC REPORT. HE POINTED OUT THAT CAPACITY UTILIZATION HAD RISEN FROM 76 PERCENT IN JULY TO 80 PERCENT IN JANUARY AND SUGGESTED THAT REAL GROWTH THIS YEAR, PLACED AT 4-5 PERCENT IN THE GOVERNMENT'S ANNUAL REPORT, IS NOW LIKELY TO COME CLOSER TO 5 PERCENT THAN TO 4 PERCENT. HE ALSO PREDICTED THAT UNEMPLOYMENT THIS YEAR WILL PROBABLY AVERAGE 4.5 PERCENT AND PLACED THE PROBABLE YEAR-END RATE AT 4 PERCENT. NEVERTHELESS, HE SAID, UNEMPLOYMENT WILL REMAIN A PROBLEM FOR QUITE SOME TIME, AND THE LOSSES IN GROWTH OF THE PAST TWO YEARS HAVE NOT YET BEEN MADE UP. OTHER PREDICTIONS FOR 1976 INCLUDED A REDUCTION OF THE CONSUMER PRICE INCREASE TO 4-1/2 - 5 PERCENT AND OF THE GNP DEFLATOR TO 4 PERCENT. IN THE MINISTER'S VIEW, EXPORTS WILL RISE BY ABOUT 10 PERCENT NOMINALLY, BUT WILL BE OUTPACED BY IMPORTS. THE NET FOREIGN BALANCE IS EXPECTED TO REMAIN AT 2-1/2 PERCENT OF GNP.

3. AS FRIDERICH'S SEES IT, WHILE THERE IS ENOUGH "FUEL" FOR A CONTINUED UPSWING IN THE SHORT RUN, ELEMENTS LIMITED OFFICIAL USE

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OF UNCERTAINTY PERSIST. SPECIFICALLY MENTIONED WAS THE DEVELOPMENT OF WORLD TRADE, WITH RECENT TRENDS IN ITALY AND GREAT BRITAIN PINPOINTED AS PARTICULARLY WORRISOME BUT THE U.S. ECONOMY CHARACTERIZED AS A BRIGHT SPOT. (HE SAID HE WAS GRATIFIED THAT HIS GUEST SECRETARY SIMON MADE CLEAR THAT THE U.S. PRONOSIS WOULD HAVE TO BE CORRECTED UPWARD TO REAL GROWTH BETWEEN 6 AND NEARLY 7 PERCENT.) ALSO ON THE DOMESTIC SCENE FRIDERICH'S SEES

NEED TO STRENGTHEN THE PREREQUISITES FOR A LASTING
UPTURN. IN THIS CONTEXT, HE REITERATED EARLIER PLEAS
FOR WAGE AND PRICE RESTRAINT AND ONCE AGAIN SINGLED OUT
THE KEY ROLE OF PRIVATE INVESTMENT AND, CONSEQUENTLY,
IMPROVED PROFITS IN COPING WITH THE "CENTRAL PROBLEM
OF COMING YEARS" -- EMPLOYMENT LEVELS. PRAISING THE
MERITS OF FREE MARKET PRINCIPLES, FRIDERICH'S ONCE AGAIN
CAME OUT AGAINST NATIONAL PLANNING.

5. THE CHAIRMAN OF THE CDU WORKING GROUP OF ECONOMICS,
MUELLER-HERRMANN, CONCEDED THAT RECENT INDICATORS LOOK
FAIRLY GOOD WHEN VIEWED AGAINST THE BACKGROUND OF THE
PAST RECESSION, ADDING, HOWEVER, THAT IT IS NOT 3, 4 OR
5 PERCENT GROWTH IN 1976 BUT THE DURATION OF THE UPSWING

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THAT IS DECISIVE IN MITIGATING UNEMPLOYMENT WHICH
REMAINS THE LASTING PROBLEM. REFUTING THE CHANCELLOR'S
THESIS OF IMPORTED RECESSION, MUELLER-HERMANN BLAMED THE
GOVERNMENT POLICIES FOR THE "DRAMATIC MALDEVELOPMENTS",
REFLECTED IN A CONSTANTLY RISING SHARE OF GOVERNMENT IN
GNP AT THE EXPENSE OF INVESTMENT AND, CONSEQUENTLY,
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EMPLOYMENT. RESTORATION OF FULL EMPLOYMENT REQUIRES
REVIVAL OF INVESTMENT PROPENSITY, HE ASSERTED. TO THIS
END, SHORT AND MEDIUM-TERM TAX INCENTIVES, PARTICULARLY
IN FAVOR OF SMALL AND MEDIUM-SIZED BUSINESS, ARE
REQUIRED. THE FORTHCOMING LOSS CARRYBACK IS A FIRST STEP
IN A RIGHT DIRECTION BUT, BY ITSELF, THIS WILL NOT
SUFFICE, HE EMPHASIZED. MOREOVER, MUELLER-HERRMANN CAME
OUT FOR CURTAILMENT OF GOVERNMENT EXPENDITURES AND
ASSERTED THAT TAX INCREASES (PROBABLY MEANING CONTEM-
PLATED TVA INCREASES) ARE NOT COMMENSURATE WITH THE
UNDERLYING SITUATION. MINISTER PRESIDENT STOLTENBERG
(CDU) COMMENTED ESSENTIALLY ALONG THE SAME LINES.

6. COMMENTS. THERE WERE NO NEW ELEMENTS PRESENTED IN THE
DEBATE BY EITHER THE GOVERNMENT OR THE OPPOSITION INsofar
AS POLICIES OR PROGNoses WERE CONCERNED. IN FACT THE
RELATIVELY FAVORABLE RECENT DATA ON NEW ORDERS AND
PRODUCTION DO NOT SUGGEST THAT THE GOVERNMENT'S GROWTH
FORECAST IS OUTRAGEOUSLY OPTIMISTIC, THEREBY ROBBING
THE OPPOSITION OF AN OPPORTUNITY TO ATTACK ON THIS
ACCOUNT. SINCE BOTH GOVERNMENT AND OPPOSITION AGREED
THAT THE BIG PROBLEM WAS UNEMPLOYMENT, THERE WAS NO
ARGUMENT ON THIS POINT EITHER. AS WELL, BOTH FRIDERICHs
AND THE CDU/CSU OPPOSITION ARE AGAINST FURTHER
EXPANSIONARY MEASURES AND AS A RESULT THIS ELEMENT DID
NOT COME TO THE FORE. PERHAPS THIS COMPARATIVELY
SUBDUED BUNDESTAG SESSION ILLUSTRATES AS WELL AS ANYTHING
ELSE THE LINE UP ON ECONOMIC POLICY AS
AN ISSUE IN THIS ELECTION YEAR. UNEMPLOYMENT
DEVELOPMENTS COULD BECOME CRITICAL, BUT BOTH FRIDERICHs
AND THE CDU/CSU PROPOSED REMEDY CENTERS ON TAX RELIEF
FOR BUSINESS, SO BETWEEN THEM THERE WILL LIKELY BE LITTLE

FUTURE DISPUTE ON THIS ISSUE EITHER. IF ECONOMIC POLICY
DOES EMERGE AS A MAJOR POINT IN THE ELECTION CAMPAIGN,
THE OPPOSITION'S TARGET WILL LIKELY BE THE SPD AND NOT
FRIDERICH'S, THE GOVERNMENT'S PRINCIPAL SPEAKER IN THE
MARCH 11 DEBATE.
HILLENBRAND

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